

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 INR-10 NSAE-00 PA-03

RSC-01 USIA-12 PRS-01 AGR-20 AID-20 COME-00 EB-11

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 OMB-01 RSR-01

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R 301021 Z MAY 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 7133

AMCONSUL MEDAN

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FOLLOWING MSG SENT ACTION JAKARTA MAY 23, 1973

NOW PASSED FOR YOUR INFO:

QUOTE:

LIMITED OFFICIAL USE SURABAYA 211

E. O. 11652: N/ A

TAGS: EAGR, ID

SUBJECT: EAST JAVA RICE REPORT

REF: SURABAYA 113

SUMMARY: MAJOR ELEMENTS OF UNCERTAINTY IN EAST JAVA RICE SITUATION AT START OF PEAK HARVEST PERIOD ARE: FIRM PROVINCIAL GOVERNMENT INSISTENCE THAT ALL PROCUREMENT FROM FARMERS BE CARRIED OUT THROUGH FLEDGLING BUUD MECHANISM; DISTINCT CONTRAST BETWEEN THIS POSITION AND MORE FLEXIBLE CENTRAL GOVERNMENT POLICY; CONTINUING LAG BETWEEN AMBITIOUS PROVINCE PROCUREMENT TARGET AND REALIZED DELIVERIES TO GOVERNMENT STOCKS; AND COMPARTMENTALIZATION OF LOCAL MARKET AND PRICE STRUCTURE DUE TO RESTRICTIONS

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ON MOVEMENTS OF RICE DURING PROCUREMENT DRIVE. MARKET PRICES NOW GENERALLY NEARING FLOOR LEVELS IN PROVINCE, ENDING LONG PRICE CRISIS FOR CONSUMERS, AND ALTERNATE DANGER OF PRICE TO FARMERS DROPPING SIGNIFICANTLY BELOW FLOOR THUS FAR AVERTED DESPITE INDICATIONS THAT HARVEST WILL BE SIGNIFICANTLY BETTER THAN LAST YEAR. PRIVATE RICE TRADERS APPARENTLY COOPERATING WITH GOVERNMENT (AND SECURITY) AUTHORITIES AND AVOIDING DIRECT OR SPECULATIVE PURCHASES, BUT LIKELIHOOD REMAINS THAT THESE PRIVATE MARKET ELEMENTS WILL EVENTUALLY BE CALLED UPON TO PLAY A MORE DIRECT ROLE IN ASSISTING OVEREXTENDED BUUD NETWORK IN MEETING PEAK PURCHASING REQUIREMENTS. END SUMMARY

1. EAST JAVA RICE PROCUREMENT SITUATION IS SOMEWHAT CONFUSED AS PROVINCE MOVES INTO PEAK HARVEST PERIOD. MAIN ELEMENTS OF SITUATION ARE AS FOLLOWS:

A. PROVINCIAL GOVERNMENT REMAINS FIRM IN POLICY REQUIRING FARMERS TO SELL ALL RICE TO OR THROUGH BUUD DESPITE PROBLEMS IN SOME AREAS WHERE BUUDS HAVE NOT BEEN ABLE TO HANDLE NECESSARY VOLUMES OF PURCHASES. IN IMPORTANT JEMBER AREA, FOR EXAMPLE, WHERE PROCUREMENT TARGET JUST RAISED FROM 88,000 TO 106,000 TONS (OVER ONE QUARTER OF TOTAL PROVINCE TARGET), ACCORDING PRESS REPORTS PRIOR TO THIRD WEEK MAY ONLY 7 BUUDS (OUT OF TOTAL OF 32) WERE MAKING PURCHASES. OTHER REPORTS INDICATE IN SOME AREAS FARMERS ONLY RECEIVING VOUCHERS FOR RICE, NOT CASH AS PROMISED.

B. SEVERAL RECENT PUBLIC STATEMENTS ON NATIONAL PROCUREMENT POLICY HAVE CONTRASTED SHARPLY WITH EAST JAVA REGULATION GIVING EXCLUSIVE ROLE TO BUUDS. PRESIDENT VISITED NGANJUK IN EAST JAVA MAY 12 TO VIEW RICE PROCUREMENT, AND ACCORDING TO PRESS STATED IN BRIEFING TO EAST JAVA OFFICIALS THAT PRIVATE SECTOR ROLE IN RICE PROCUREMENT WELCOME SINCE BUUD CAN HANDLE ONLY A MINOR AMOUNT OF TOTAL RICE PRODUCTION, THOUGH HE ALSO WARNED AGAINST PRIVATE EFFORTS TO CORNER THE MARKET OR SQUEEZE FARMERS. BULOG CHIEF ACHMAD TIRTOSUDIRO ON TWO-DAY VISIT TO EAST JAVA MAY 16-17 ALSO SPOKE UP FOR ROLE OF PRIVATE RICE MILLS IN MAKING PROCUREMENT DRIVE SUCCEED. SURABAYA PRESS ALSO PROMINENTLY REPORTED MEETING OF GOVERNORS IN JAKARTA ON MAY 17 AT WHICH PRESIDENT MADE STRONG STATEMENT THAT GOVERNORS ARE NOT FREE TO FOLLOW THEIR OWN PREFERENCES WHEN IMPLEMENTING NATIONAL POLICIES, PARTICULARLY IN IMPORTANT AREA SUCH AS RICE PROCUREMENT. LIMITED OFFICIAL USE

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WHILE THERE NO INDICATIONS THAT THESE STATEMENTS INTENDED AS DIRECT CRITICISM OF EAST JAVA POLICY, AND LOCAL DOLOG OFFICIALS CONFIRM THAT NO CHANGE IN EAST JAVA REGULATION IS ANTICIPATED, AN UNUSUAL INCONSISTENCY BETWEEN NATIONAL AND PROVINCIAL POLICIES IS APPARENT.

C. PROGRESS OF PROCUREMENT DRIVE STILL DIFFICULT TO MEASURE. AC-

CORDING TO EAST JAVA DOLOG OFFICIALS, AS OF MAY 15 BUUDS HAD PURCHASED 100,000 TONS OUT OF EAST JAVA'S NEW 400,000 TON TARGET (UP FROM ORIGINAL 360,000). DOLOG HAD ONLY CONTRACTED FOR 80,000 TONS AS OF THAT DATE, HOWEVER, AND ONLY 8,000 TONS HAD ACTUALLY BEEN TURNED OVER TO DOLOG CONTROL. ALTHOUGH REGULATIONS CONCERNING QUALITY OF PROCURED RICE (PERCENTAGE OF BROKEN GRAINS) HAVE BEEN EASED SINCE 1972 AND PRESENT NO PROBLEM TO DOLOG THIS YEAR, MOISTURE CONTENT IS OF CONCERN AS DOLOG OFFICIALS HAVE INDICATIONS MOISTURE CONTENT OF SOME UNMILLED RICE RECEIVED FROM BUUDS MAY BE ABOVE ACCEPTABLE LEVEL FOR STORAGE OR SHIPMENT OUT OF PROVINCE, WHICH WOULD NECESSITATE EITHER ADDITIONAL EXPENSE FOR FURTHER DRYING OR IMMEDIATE RELEASE TO LOCAL MARKETS WITH RESULTING DECREASE IN NET PROCURED STOCKS.

D. PROHIBITION ON SHIPMENT OF RICE OUT OF PROVINCE OR EVEN BETWEEN KABUPATEN WITHOUT PERMITS (WHICH RARELY BEING GIVEN BY LOCAL AUTHORITIES UNTIL PROCUREMENT TARGETS MET) HAS CAUSED CONSIDERABLE LOCAL VARIATIONS IN MARKET PRICE LEVELS. IN SOME SURPLUS PRODUCTION AREAS SUCH AS RURAL PARTS OF JEMBER KABUPATEN PRICE TO CONSUMER REPORTED TO HAVE FALLEN BELOW FLOOR PRICE OF RP. 45 PER KILOGRAM OF MILLED RICE. IN OTHER AREAS SUCH AS PERENIALLY POOR BOJONEGORO CORRESPONDING PRICE AS HIGH AS 55. PRICE LEVELS IN MAJOR CITIES OF PROVINCE ALSO REMAIN ABOVE FLOOR. IN SURABAYA, WHERE PRICES HAVE CONTINUED STEADY SLIDE FROM DECEMBER HIGHS OF NEARLY 100 TOWARD MORE NORMAL LEVELS AND DROPPED BELOW 50 FOR HIGH YIELD VARIETIES AS OF FIRST WEEK OF MAY (THOUGH STILL 67.5 AND 62.5 RESPECTIVELY FOR HIGHER QUALITY VARIETIES IN CONSULATE SAMPLE), BULOG CHECK PRICE WAS STILL 47 AS OF THIRD WEEK MAY.

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RSC-01 USIA-12 PRS-01 AGR-20 AID-20 COME-00 EB-11

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 OMB-01 RSR-01

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2. EAST JAVA PROCUREMENT SITUATION THUS REMAINS A PUZZLE. ON BRIGHT SIDE, PRODUCTION FIGURES TO DATE INDICATE A REASONABLY GOOD CROP THIS YEAR, AND DESPITE SCATTERED REPORTS OF DIFFICULTIES ON PART OF BUUDS, SYSTEM AS A WHOLE HAS APPARENTLY HELD UP THUS FAR. PROVINCIAL LEADERSHIP AND LOCAL DOLOG OFFICIALS CLEARLY DETERMINED THAT EAST JAVA WILL ACHIEVE PROCUREMENT TARGET OF NEARLY ONE HALF OF NATIONAL BULOG STOCK, AND EQUALLY DETERMINED THAT PRIVATE RICE TRADERS WILL NOT BE PERMITTED TO CORNER REMAINING SUPPLIES AND CONTROL LOCAL MARKET. DOLOG OFFICIALS EXPRESS FEARS THAT WITH ASIA- WIDE RICE SHORTAGE EXPECTED THIS YEAR, UNRESTRICTED PRIVATE PURCHASES COULD LEAD TO SUBSTANTIAL PRIVATE EXPORTS AND SUBSEQUENT LOCAL SHORTAGES AND DRAMATIC PRICE RISES. ALTHOUGH RESTRICTIONS ON RICE MOVEMENTS WITHIN PROVINCE AND RESULTING PRICE DIFFERENTIALS CAN BE EXPECTED TO LEAD TO SOME LOCAL SPECULATIVE ACTIVITIES AND UNOFFICIAL MOVEMENTS, PRIVATE TRADERS STILL APPEAR TO BE PROCEEDING VERY CAUTIOUSLY IN FACE OF CONTINUING UNCERTAINTY AS TO GOVERNMENT EXPECTATIONS OF THEIR ROLE AND GENERAL CONVICTION THAT SECURITY AUTHORITIES WOULD TAKE STRONG COUNTER- MEASURES AGAINST ANYONE THOUGH TO BE " SABOTAGING" GOVERNMENT PLANS. ON THE OTHER HAND, BUUD PROCUREMENT SYSTEM ONLY NOW ENTERING ITS PERIOD OF MOST SEVERE TEST AS HARVEST PEAKS AND DOWNWARD

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PRESSURE ON PRICE TO FARMERS INCREASES. IN THIS SITUATION, THERE MORE REASON TO BELIEVE THAT TRADITIONAL MARKET FORCES WILL SOMEHOW BE REACTIVATED TO HELP HANDLE THE LOAD (UNDER GUISE OF ANY NUMBER OF POSSIBLE OFFICIAL RATIONALIZATIONS) THAN THAT INEXPERIENCED, UNDERMANNED AND OVER- REGULATED BUUD MECHANISM WILL PERFORM AS THEORETICALLY INTENDED. RANDOLPH UNQTE

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973JAKART06426
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730555/aaaajvxs.tel
Line Count: 209
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 SURABAYA 113
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by martinml>; APPROVED <17-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980306
Subject: EAST JAVA RICE REPORT
TAGS: EAGR, ID
To: EA
MEDAN
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005